

GAO

Testimony

FOR RELEASE
ON DELIVERY
EXPECTED AT
10:00 A.M. EDT
WEDNESDAY,
JUNE 10, 1987

STATE DEPARTMENT'S INTERNAL CONTROLS
OVER PERSONAL PROPERTY ARE INADEQUATE

STATEMENT OF
FRANK C. CONAHAN, ASSISTANT COMPTROLLER
GENERAL FOR NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS

BEFORE THE
SUBCOMMITTEE ON LEGISLATION AND NATIONAL
SECURITY
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES



133181

039146

Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to provide information on the results of our review of the State Department's efforts to improve internal controls over its personal property. This property includes such things as motor vehicles; household and office furniture and equipment; and communications, security, and automated data processing (ADP) equipment. We will issue our report to the Secretary of State today.

Our review was started as part of GAO's efforts to assess agencies' implementation of the Federal Managers' Financial Integrity Act (FIA) and because previous audit work had indicated that State may not have been effectively correcting reported property management control weaknesses.

Between April and December 1986, we collected information at State's foreign and domestic locations. We performed our overseas work in Athens, Greece; London, England; The Hague, Netherlands; Vienna, Austria; Dhaka, Bangladesh; Rangoon, Burma; Bangkok, Thailand; Seoul, Korea; Hong Kong; and The American Institute in Taiwan at Taipei. Additional audit work was also done on the taking and reconciling of inventories at Cairo, Egypt; Rabat, Morocco; Santo Domingo, Dominican Republic; Port-Au-Prince, Haiti; and Brasilia and Rio de Janeiro, Brazil. At Brasilia, we also collected information on State's implementation of an automated property management system.

In Washington, D.C., we reviewed property controls in operation at the Foreign Service Institute and at the Bureaus of African Affairs, Inter-American Affairs, East Asian and Pacific Affairs, European and Canadian Affairs, Near Eastern and South Asian Affairs, and Consular Affairs. We also performed audit work at seven warehouses used by the Office of Communications, the Bureau

of Diplomatic Security, and the Office of Supply, Transportation, and Procurement.

Our objectives were to determine whether (1) State's efforts to implement better control over nonexpendable personal property are sufficient, (2) nonexpendable personal property management policies and regulations are being followed, and (3) additional actions are needed to strengthen State's property management controls.

INTRODUCTION

The Department of State has nonexpendable personal property at about 260 foreign posts and in 21 domestic cities. The State Department has no reliable estimate of the value of its personal property inventory, but it spent about \$252 million to buy personal property in fiscal years 1985 and 1986 alone.

State regulations for managing and controlling this property are included in its Foreign Affairs Manual. During our review, the Central Property Management Office was revising these regulations because the regulations applicable to foreign operations contained some minor inadequacies, and those applicable to domestic operations contained major omissions.

LONG HISTORY OF INADEQUATE CONTROL OVER PERSONAL PROPERTY

Adequate personal property management requires internal controls to ensure that the government's investment is prudent and that property is properly used, maintained, safeguarded, accounted for, and redistributed or disposed of when no longer needed.

Over the past 18 years, we, and more recently the State Department's Inspector General (IG), have reported that State's

internal controls over personal property were inadequate.¹ Some of the problems repeatedly found were failures to

- maintain accurate and complete property records,
- take and reconcile inventories annually,
- plan adequately for procurement, and
- identify and redistribute or properly dispose of excess property.

To some extent, these problems were the result of inadequate regulations for property management, especially those for domestic offices. However, they resulted mainly because the State Department did not enforce established regulations.

STATE DEPARTMENT PLANS FOR CORRECTING CONTROL WEAKNESSES

The Federal Managers' Financial Integrity Act (FIA) of 1982 requires federal agencies to evaluate their internal control systems and report annually to the President and to the Congress any material control weaknesses and their plans for correcting them. In its 1983-86 FIA reports, the State Department reported that its internal controls over personal property were inadequate.

¹Department of State's Progress in Implementing the Federal Manager's Financial Integrity Act (GAO/NSIAD-85-135, Sept. 25, 1985); Personal Property Management, Domestic Operations (Inspector General, U.S. Department of State, A-848, Dec. 1984); Personal Property Management, Overseas Operations (Inspector General, U.S. Department of State, A-849, Dec. 1984); Management and Control of Personal Property Is Poor and Procurement Controls Should Be Strengthened at U.S. Embassies in Latin America (GAO/ID-80-23, Feb. 11, 1980); Acquiring and Managing Nonexpendable Personal Property Overseas: A Follow-up Review (GAO/ID-75-66, June 9, 1975); and Improvements Made or to Be Made in the Acquisition and Management of Nonexpendable Personal Property Overseas (GAO/B-165867, Mar. 12, 1969).

To correct these weaknesses the State Department has reported progress in implementing the following plans and actions:

- establishing a central property management office to determine policy, develop regulations and procedures, develop and provide training, provide assistance in property management, monitor compliance with regulations, and coordinate overall property management activities;
- designing, developing, and implementing an automated property management system that all domestic offices and most foreign posts will use to keep property control records and prepare inventory and other reports; and
- requiring offices to certify annually to headquarters that required physical inventories of personal property have been taken and reconciled.

STATE DEPARTMENT REGULATIONS
NOT BEING FOLLOWED

At the time of our review, the offices we visited were not fully complying with many State Department regulations for managing and controlling personal property. The following are some of the major problems we identified:

- Property records not being adequately kept.
- Inventories not being properly taken and reconciled.
- Property being replaced before necessary and stocked in excess.

In addition, State's Central Property Management Office, which is charged with monitoring compliance, had no established program for doing so.

PROPERTY RECORDS NOT ADEQUATELY KEPT

State Department regulations require offices to maintain records of the quantities, values, and maintenance history of the Department's nonexpendable personal property. However, many of the offices we visited were not maintaining accurate and complete property records.

At the foreign offices, we found a number of problems with property records. For example, officials in Rio de Janeiro, Cairo, London, and Vienna considered their property records too inaccurate to be used for reconciliation. Also, at Hong Kong, records for 15 percent (8 of 53) of the property items we tested were inaccurate or incomplete. The records (1) did not show the correct location of five items, (2) listed a computer work station and a computer printer that could not be found, and (3) did not list a personal computer that we found.

Similar problems were found at the domestic offices. For example, we tested 60 property records and could not locate 12 (20 percent) of the items listed. We also selected 106 property items in these offices and found that 22 (20.8 percent) were not identified on property records.

Some record inaccuracies at the domestic offices occurred because the offices were not recording ADP equipment when received and some offices, such as the Foreign Service Institute and the Bureau of Consular Affairs, were not recording property transactions promptly. Property management officials said ADP equipment was not being recorded when received because the contract stipulated that boxes be opened only in the presence of an authorized supplier representative. Because the representative does not come to the office until the equipment is to be installed, which may be weeks or months after the equipment is received, the equipment is not entered on accountable property records until then. Thus, some

very expensive ADP equipment remains inadequately controlled for long periods.

INVENTORIES NOT PROPERLY
TAKEN AND RECONCILED

State Department regulations require each office to perform annual physical inventories of personal property. The inventories are intended to serve as the basis for annual property reconciliations and adjustments to property records. When the inventory and reconciliation is completed, the accountable property officer is required to certify that (1) a physical inventory was taken of all personal property, (2) the inventory was reconciled with the property records, (3) all missing property was reported to a Board of Survey, and (4) property records are current. To encourage more offices to take and reconcile the inventories, State has begun requiring property officers to submit the certifications to headquarters. The first submission was required at various times from September 30, 1985 through November 1, 1986, depending on the location of the office.

As of December 31, 1986, about 85 percent of the State Department's 260 foreign offices had submitted their first inventory certification. Of the 39 foreign offices which had not provided the certifications, 27, or 69 percent had provided an explanation of their noncompliance and the date they expected to complete the inventory and reconciliation. Similarly, about half of State's domestic offices had submitted the certification, and of the 20 which had not, 17, or 85 percent, had provided an explanation of their noncompliance and the date they expected to complete the inventory and reconciliation.

In reviewing the foreign office certifications, many were misleading. For example:

- Athens certified in September 1985 that a complete inventory was taken and reconciled except for the ambassador's residence, although warehouses were not inventoried until 6 months later. Further, property management officials at Athens said they arbitrarily adjusted property records to agree with the inventory and that the General Services Officer had submitted the certification knowing this because the State Department required it.

- The Hague certified in September 1985 that inventories had been taken, but property officials had not inventoried warehouse stock and had not physically counted property in residences when they were vacated.

- Bangkok certified in April 1986 that inventories had been taken and reconciled and that property records were current as of December 1985, however, property records we examined were not adjusted until June, 1986.

- Cairo officials certified that a reconciliation was performed and that property records were current even though they had not completed the reconciliation because they doubted the accuracy of the property records.

- Rangoon certified in December 1985 that the inventory had been taken and reconciled and that property records were current; but, when we visited in the summer of 1986, we found that the reconciliation was not yet complete and that property records had not yet been adjusted.

We were not able to obtain satisfactory reasons why these misleading certifications were made.

State's regulations also require that offices maintain complete documents on how inventories were performed. However, many of the posts we visited had insufficient documentation.

We did not verify the certifications of seven domestic offices because their certifications were not due until after our review was completed at those sites. However, we did look at inventory and reconciliation records and procedures. One office--the Foreign Service Institute--had not performed an inventory and had no record or corporate memory of when an inventory was last taken. The other six offices had either recently performed or were performing an inventory at the time of our review. However, they were not adhering to prescribed procedures such as performing an actual count of property without reference to property listings or maintaining an inventory file. Further, none had performed an adequate reconciliation. For example, Bureau of African Affairs officials told us that they arbitrarily change property records to account for shortages without making any effort to determine their cause and that they simply ignore any overages.

The certifications submitted by the foreign offices do not cover specialized communications and security equipment or motor vehicles at foreign offices. It is the responsibility of the Office of Communications, the Bureau of Diplomatic Security and the Office of Supply, Transportation, and Procurement, located in Washington, D.C., to inventory such property. Although a detailed review was not performed on the adequacy and accuracy of inventories of specialized equipment at foreign offices, we did examine available documents in Washington, D.C. From this examination we concluded that:

-- The Bureau of Diplomatic Security is sending maintenance teams from Washington to repair equipment at foreign offices and to inventory the equipment during these visits, and the Bureau is maintaining copies of the inventories on file in Washington.

- The Office of Supply, Transportation, and Procurement is relying on motor pool officials at foreign offices to provide them with current lists of motor vehicles at each office and maintains a centralized computerized inventory listing, by office, in Washington.

- The Office of Communications, however, was not able to provide documents to show that inventories of communications equipment have been performed.

According to Central Property Management Office officials, however, when these domestic offices submit their certifications, they will be certifying that the specialized equipment throughout the Department, including that at foreign locations, has been physically inventoried, that a reconciliation has been performed, and that property records are current.

PROPERTY BEING REPLACED BEFORE NECESSARY
AND STOCKED IN EXCESS

State's regulations for nonexpendable property management are based on a policy that offices only acquire property needed for efficient and effective operations. This policy is promoted by requiring foreign locations to perform reviews of the use of the property, requiring all locations to take steps to ensure that property is acquired only when actually needed, and specifying replacement and use standards for some types of property.

Many of the offices were not complying with these regulations and, as a result, property was sometimes being unnecessarily replaced or being stocked in excess. For example:

- Although State Department regulations provide that electric typewriters are to be used at least 12 years unless repair costs would be excessive, Bangkok officials planned to replace 205 electric typewriters, valued at \$167,310, in fiscal year 1987,

even though over half of them were less than 8 years old and they had no evidence that repair costs were excessive.

- Rangoon officials replaced nine electric typewriters, valued at \$6,945, which had been purchased in 1985 because the warranty had expired. When checked by the person who services typewriters at the office, they were found to be in good working condition.

- Seoul had 530 window air conditioners even though about three-fourths of its 217 housing units and its main office building have central air conditioning.

- The American Institute in Taiwan had 236 refrigerators, 137 ranges, 159 vacuum cleaners, and 139 water heaters for a total of only 93 housing units. Officials said that market and climatic conditions necessitate two refrigerators per residence, some ranges and vacuum cleaners were used in office buildings, some houses needed more than one water heater, and they planned to dispose of some units.

- Some offices had more typing units (typewriters and computer work stations) than they had employees.

Comparison of Number of Typing Units With
Number of Employees at Selected Offices

<u>Office</u>	<u>Typing Units</u>		<u>Total</u>	<u>No. of employees</u>
	<u>Typewriters</u>	<u>Computer work stations</u>		
Hong Kong	181	50	231	218
Bureau of African Affairs	116	133	249	148
Bureau of European and Canadian Affairs	156	131	287	210
Bureau of Inter-American Affairs	178	119	297	217
Bureau of East Asian and Pacific Affairs	109	126	235	138
Bureau of Near Eastern and South Asian Affairs	102	153	255	144
Bureau of Consular Affairs	137	118	255	165

CENTRAL PROPERTY MANAGEMENT OFFICE
LACKS FORMAL MONITORING PROGRAM

In September 1985 the State Department established the Central Property Management Office, in its Bureau of Administration, to improve internal controls over personal property. This office does not physically manage, control, and account for the State Department's personal property as administrative responsibility for that rests with functional and regional offices within the State Department. The Central Property Management Office, which at the time of our review was staffed with two employees, is responsible for developing policy, regulations and procedures; developing and providing training; providing required assistance; monitoring compliance with regulations; and coordinating personal property management activities. So far, because of its limited staffing, the office's efforts have been largely concentrated on revising the regulations. Once the revised regulations are issued, the office plans to work, within the limitations of the resources it has been provided, on its other responsibilities.

The Central Property Management Office has not yet developed a formal regulations monitoring program. As of November 1986 the office had visited only 4 of the State Department's 260 foreign offices and a few of its domestic offices. The office officials said that it does not have the staff or funds for extensive monitoring visits. It had, however, asked the IG to alert it to significant instances of noncompliance identified during inspections. Because the State Department's IG Office is reorganizing, we contacted officials in both the old office--now the Office of Policy and Program Review--and the new IG Office about plans for inspections. Officials in both offices said that they were unsure how or when inspections would be performed because of the reorganization. The new IG office will not be organized and staffed to begin inspecting posts and offices until sometime in 1988.

The Chairman, House Committee on Government Operations, Subcommittee on Legislation and National Security, asked the State Department which State official has the authority to ensure that regulations are followed. The Department's July 1986 response to the Chairman said that the Under Secretary for Management has sufficient authority and, after being notified by the Assistant Secretary for Administration of a failure to comply, could take appropriate action to ensure compliance. Moreover, the Assistant Secretary for Administration stated in September 1986 that

"Thus far it has not been necessary for me to notify the Under Secretary for Management that personal property management regulations are not being followed since there have been no such instances."

However, the results of this review, as well as our previous and State Department IG reviews, demonstrate clearly that personal property management regulations have often not been followed.

CONCLUSIONS

Many of the problems identified over the years in the State Department's internal controls for personal property continue, even though State's FIA reports have outlined progress toward correcting them. Domestic and foreign offices are still not adequately complying with regulations for the management of nonexpendable personal property or exercising adequate internal controls over their property. This situation will continue, in our opinion, until the State Department ensures compliance with its regulations through monitoring and enforcement action. The Central Property Management Office, which is responsible for monitoring compliance with the regulations, has not been given the resources necessary to carry out its responsibilities, and thus, has not yet established an effective monitoring program. The Central Property Management Office should be given the resources necessary to carry out all of its responsibilities and the State Department needs a formal monitoring program. This program should include results of

- IG and Office of Policy and Program Review audits and inspections when performed,
- Federal Managers' FIA internal control assessments and questionnaires,
- monitoring instruments (such as a questionnaire or checklist) to be completed by geographic bureau Post Management Officers when they visit foreign offices,
- regulations compliance questionnaires which all State offices should complete and certify annually along with their certification of the taking and reconciling of inventories, and
- periodic Central Property Management Office on-site monitoring visits to domestic and foreign offices.

Since property management problems have been long standing and remain uncorrected, it seems clear that a new mechanism is needed to ensure corrective action is taken. More aggressive enforcement is also needed.

RECOMMENDATIONS

Our report recommends that the Secretary of State

- reemphasize the importance and the need for principal officers and property control officials to assure that regulations on personal property management are properly followed;
- provide the Central Property Management Office the resources necessary to carry out its responsibilities, including the establishment of a compliance monitoring program;
- direct other offices to participate as needed in a compliance monitoring program; and
- ask the IG to provide the Central Property Management Office with copies of all audit and inspection reports that discuss compliance with personal property management regulations.

We also recommend that the Secretary of State direct the Under Secretary for Management to implement a new mechanism that will ensure property management problems are corrected.

AGENCY COMMENTS

State agreed that our findings represented a fair and accurate assessment of the property management deficiencies at domestic and foreign offices. State also acknowledged the need for an accelerated program to correct the deficiencies. State told us that it is preparing a plan to fully implement our recommendations. State also discussed with us actions it has already taken, such as adding a third person to the Central Property Management Office

staff, and some of its plans to improve its property management controls, such as development of a compliance monitoring program.

State's Office of Inspector General also agreed that the Department's controls were inadequate, but disagreed with our proposal that the Secretary ask the IG to participate as needed in a compliance monitoring program. The IG told us that compliance monitoring should be a function of the Central Property Management Office and that IG participation in monitoring could interfere with the IG's independence by placing the IG in State Department's management process. The IG did agree, however, that reports on noncompliance with property management regulations should be provided to appropriate State managers when the inspection teams focus on property management as a special project. That, in fact, was the intent of our proposal, and since the IG has indicated that he will provide these reports, the proposal for the IG to participate in a compliance monitoring program was not included in the recommendations contained in our final report.

PROBLEMS WITH EFFECTIVE IMPLEMENTATION
OF AUTOMATED PROPERTY RECORDS SYSTEM

One of the State Department's major efforts to improve internal controls over personal property has been to develop and implement an automated nonexpendable property management application (NEPA) system to replace the manual records system. NEPA development began in the late 1970s. During our review, State considered NEPA to be operational at 27 foreign offices and 2 domestic offices. At least 15 other foreign offices and 2 other domestic offices are currently implementing NEPA, and an additional 11 foreign offices are scheduled to begin using NEPA before the end of 1987. State officials estimate they have spent about \$260,000 developing NEPA during the last 2 fiscal years. The State Department plans to spend about \$100,000 on NEPA development during fiscal year 1987 and intends to eventually use NEPA in almost all its foreign and domestic offices.

NEPA allows users to create automated records and record receipt, issuance, transfer and disposal for each item of property. The records include information such as description, cost, life expectancy, assigned property number, location, and maintenance history. An individual record with a separate property number can be created for each item of property. Although individual records are recommended for almost all property, group records can be created for items, such as a set of silverware, when it is not practical to affix individual property numbers. NEPA also allows users to produce a variety of property management reports, such as reports on inventory, maintenance, disposals, or items due for replacement.

The system's software is being improved to increase the types of property reports that can be automatically produced and new software is being developed to allow posts and offices having personal computers to use the system. The State Department plans to test the new software in early 1987. State reported in its December 1986 FIA report that the software for personal computers is scheduled for general implementation by May 1987. The State Department also plans to develop software that will make taking and reconciling inventories easier by using a laser wand scanner and a bar code property numbering system.

CONVERSION TO NEPA POORLY
PLANNED AND IMPLEMENTED

Effective implementation of NEPA depends on such factors as

- entering accurate and complete data on all property on hand, based on a complete physical inventory and reconciliation, and all property acquired and disposed of after the system is implemented;
- training and providing guidance to system users; and

-- providing ADP controls, including (1) development of contingency plans (plans for how operations can be restored) in the event of system failure or destruction, (2) limiting employees access to the system, and (3) maintaining source documents (manual records) until the computer system data is backed up or copied to prevent data loss if a system failure occurs.

We evaluated NEPA at 10 locations that State had listed as using or implementing it and found that some are experiencing difficulties in changing to the new automated system, while others have implemented it ineffectively.

Operational Problems at Domestic Offices

Neither the Foreign Service Institute nor the Bureau of Consular Affairs took and reconciled a complete physical inventory before entering property data in the automated system. Also, neither recorded all property acquisitions and all disposals occurring since system implementation. As a result, their property records were incomplete and inaccurate. We also found that both used property numbering systems and affixed bar codes to the property that will not work with the laser scanner inventory system the State Department plans to develop. The Bureau of Consular Affairs became so discouraged by the problems it encountered in trying to implement NEPA that it stopped using the system, even though its manual property records had already been discarded. In effect, the Bureau of Consular Affairs had no property management and control system in operation. Bureau officials said that no one in the bureau knows how to use NEPA.

Operational Problems at Foreign Offices

At five foreign offices listed as using NEPA, we found NEPA had not yet replaced manual record systems at two offices and that the

other three had not yet achieved fully effective implementation.
For example:

- Athens continues to rely on its manual records system even though it spent 2 years labeling and entering property into NEPA.
- Hong Kong continues to rely on its manual records system, even though it began implementing NEPA before June 1985, because its NEPA data base is still incomplete and it found that the property records entered into the system contained numerous errors.
- Hong Kong and the American Institute in Taiwan did not affix property numbers to specifically identify property items because officials feared that the numbers they assigned might not be compatible with the planned laser scanner inventory system. Property officials were waiting for the State Department to send them appropriate bar coded property number stickers. (After we brought this situation to the attention of the Central Property Management Office, it informed these locations where and how to obtain appropriate labels.)
- Vienna, Seoul, Hong Kong, and the American Institute in Taiwan did not have cost or maintenance information recorded in NEPA records for some property items. For example, Seoul's system showed no acquisition cost for items such as minicomputers and computer work stations. Vienna's system listed no repair data for any items and no unit costs for many items.

Implementation Problems at
Three Foreign Offices

The three foreign offices we visited where NEPA was not yet operational were experiencing difficulties in implementing the system. For example:

- London has been trying to implement NEPA for over 3 years, but still has not entered residential furniture records into the system. Also, many of the records show no procurement or cost data for embassy and warehouse property. Further, officials initially created group records for some types of property, but when they found that group records provide inadequate control they reentered the property with individual property numbers.

- Although the Hague had been informed in March 1985 that individual records are recommended for almost all property, officials had created group records for some property. (After we pointed out London's experience, they began to create individual records with separate numbers for each piece of property.)

- In Brasilia, officials have been trying to implement NEPA since June 1984. By September 1986, they had entered less than 4 percent of the post's property into the system. Officials said a number of problems had hampered implementation efforts, including inadequate training, the complexity of NEPA and having only one computer terminal to enter thousands of property items into the system.

INSUFFICIENT TRAINING AND GUIDANCE

Several offices told us that their transition to NEPA has been hampered by insufficient training and guidance. Employees at most foreign locations had been trained to operate the computer and the NEPA software when it was installed. However, they were not trained to properly establish and then maintain the property system. Also, they could not find guidance they needed in the system's user manual. For example, the manual initially did not discuss the need to take and reconcile inventories before entering data into the system or the need to create individual property records for almost all property. The manual does not discuss the appropriate bar code sticker labels to use in numbering property or

the relationship of NEPA to regulations for personal property management.

The State Department has attempted to overcome NEPA training and guidance problems by issuing "lessons learned" bulletins, which it then considers part of the manual, cabling information to offices, and telephoning offices to discuss problems. It was also developing a new system's user manual at the time of our review. Furthermore, Central Property Management Office personnel have visited a few offices to provide guidance and assistance and have given some training.

In addition, in May 1986, the State Department's Foreign Service Institute expanded the General Services course it gives to some foreign service officers from 3 to 7 weeks. This expansion increased the course time devoted to personal property management training from about 8 hours to over 15 hours and also provided 3 additional hours training in the use of NEPA. It may be years, however, before many property managers receive this training. Half the property managers at foreign offices we visited said they had received no training in personal property management during their career at State. The other half had received some training on personal property management before the Foreign Service Institute courses were expanded. The Foreign Service Institute does not provide courses for domestic property management personnel. So at domestic offices we visited, most personnel said they had not received any personal property management training.

As a result of its review of the State Department's minicomputer program,² including NEPA, the State Department IG recommended that State

²The Minicomputer Program of the Department of State (Program Inspector General, U.S. Department of State, A-85-9, April 1986.)

- establish minimum training requirements for minicomputer users and operators;
- develop classroom training courses and self-study courses for each application; and
- develop an adequate system conversion program for each application that includes user orientation and guidance, a system conversion manager, and a systematic approach to the initial entering of data.

KEY ADP CONTROLS INEFFECTIVE

NEPA was designed to make accurate property record keeping and reporting easier and, thus, to improve internal controls. We did not evaluate ADP control systems for minicomputer operations in depth because we wanted to focus directly on personal property management and because State's IG had just finished its minicomputer audit as our review was beginning. However, we did check to see if locations where NEPA was operational limited user access to the computer software application, maintained source documents until data was copied or backed up, and had developed written contingency plans. Some locations are not adequately limiting access; some are not maintaining source documents until computer records are copied; and only two had developed a written contingency plan.

Access to NEPA Could be More Limited

Key property management responsibilities need to be separated to reduce the risk of error, waste, or wrongful acts present when a person can perform several key types of property transactions such as recording receipt, issuance, transfer, and disposal of property. State assigns a password to each user at a NEPA location to prevent unauthorized persons from gaining access to the automated system. State also assigns each authorized user an access level within the system. A low access level prevents the user from performing some

types of transactions. A high access level allows the user to perform many different types of transactions. At some locations, several employees had access levels high enough to perform several key system transactions, thus reducing the degree to which duties were separated. For example:

- In Vienna, 18 people had access to NEPA, including 7 systems personnel, and some of them had higher access than necessary. Officials in Vienna agreed that they needed to review NEPA access levels regarding separation of duties.
- In Athens, officials did not evaluate access levels when NEPA was installed. The ADP systems manager agreed to restrict access levels after we alerted him to the internal control problem.

We also became aware that ADP system managers at NEPA locations can change or delete NEPA data without detection because the operating system for the minicomputers contains no audit trail or record of such changes. State officials were aware of this internal control weakness and were requesting proposals from software developers for an operating system that will contain adequate internal controls.

Some Offices Not Maintaining Source Documents

Some locations were not maintaining all source documents for the period between when data is entered into the computer and when the data is copied or backed up by the computer. For example, in Vienna, property officials did not keep source documents, even though the ADP systems manager directed them to do so, and a recent minor computer malfunction had resulted in the loss of data transactions for one entire day. Also, the Athens systems manager had no established policy but, as a result of our review, the manager intends to direct all ADP users to retain all their source documents for 24 hours to allow time to update automated back up files.

Most Offices Without Contingency Plans

Except for Seoul, which has a draft contingency plan, and the Bureau of Consular Affairs, none of the other NEPA offices we visited had developed contingency plans. State regulations require such plans to provide for timely reinstatement of computer operations for all minicomputer applications. The State Department's Office of Information Systems Security is currently working to develop and implement a contingency planning program. It has developed a contingency planning handbook for foreign offices, which it sent to ADP systems managers in April 1986. The systems managers are responsible for developing the individual office's plan and providing a copy to the Office of Information Systems Security for review. (No location had yet returned a copy at the time of our review.) The Office of Information Systems Security also intends to develop and distribute a handbook for domestic offices, which may have different computer capabilities, during 1987.

The State Department's IG identified ADP internal control problems similar to those we found. The IG recommended that State develop a checklist reporting and certification process on compliance with automated system control standards, including

- making selective tests of the validity of answers by on-site inspection;
- implementing a formal standards compliance process and a mechanism for referring instances of substantial noncompliance to higher management for resolution; and
- incorporating control standards, operational standards, and the compliance enforcement process into the Foreign Affairs Manual.

CONCLUSIONS

The State Department is implementing an automated personal property management system to improve internal controls over personal

property. We believe that the system and enhancements being developed and planned will be a more efficient way to keep accurate property records, generate property reports, and develop information for management decisionmaking--if it is effectively implemented and maintained. Some system implementations, however, have encountered problems because office personnel did not receive appropriate training and guidance. Also, not enough attention has been given to ensure that ADP controls are adequate.

The lack of proper training and guidance and ADP controls were also surfaced as problems in the IG's April 1986 report. The IG's recommendations, if implemented, should strengthen internal controls for the minicomputer program and help State's managers implement minicomputer applications, including NEPA. We believe these actions should also be extended to the planned operation of NEPA on personal computers. In addition, to ensure effective NEPA implementation and control over personal property, the Central Property Management Office should provide State offices with training on NEPA implementation and property management; NEPA implementation scheduling, monitoring, and assistance; and final approval of implementation completions.

RECOMMENDATIONS

To further strengthen property management controls and facilitate an automated control system, our final report recommends that the Secretary of State direct the Central Property Management Office to develop

- a training program on managing and controlling nonexpendable personal property, with special attention to problems in establishing NEPA and
- a NEPA implementation guide and a monitoring mechanism that will identify when direct assistance is needed and when systems are fully operational.

AGENCY COMMENTS

State agreed with our recommendations and discussed with us plans for implementing them. These plans include developing a training program on NEPA implementation and the administrative procedures required to maintain automated property records and developing a mechanism for monitoring NEPA implementation.

INADEQUATE CONTROLS AT DOMESTIC WAREHOUSES

State Department regulations for domestic personal property management do not specifically address domestic warehouses. However, they do include a requirement for domestic offices, which includes warehouses, to take and reconcile inventories annually and to establish and maintain adequate property records. Good internal controls would also include provisions for adequate physical security and adequate management of major property functions. However, such controls were lacking at the warehouses we visited-- those operated by the Office of Communications, the Bureau of Diplomatic Security, and the Office of Supply, Transportation, and Procurement.

Also, although State's annual FIA reports stated that internal controls over personal property are inadequate, the reports have not specifically identified weaknesses in controls for domestic warehouses and spelled out plans for correcting the weaknesses, even though a December 1984, State Department IG report stated that controls were weak.

INVENTORIES NOT TAKEN AND RECONCILED ANNUALLY

The three organizations we visited operated seven warehouses. None had taken and reconciled inventories of all warehouse property during fiscal year 1986.

In 1985 when the Office of Communications moved property into a new warehouse, it did not reconcile the property placed in the warehouse with old property records or with the last inventory

taken in 1980. At the beginning of fiscal year 1986, it had one person begin a cyclical inventory of warehouse property by counting 10 to 16 item categories each workday and comparing the count with property records. At this rate, the cyclical inventory of the approximately 20,000 item categories in the warehouse will be completed in about 6 to 9 years. Office of Communications officials told us that they are concentrating on counting high-value property first and have requested additional funding for more personnel to complete the inventory more quickly.

We also found that the Office of Communications has not recently taken an inventory of the communications equipment it has stored in two warehouses operated by the Office of Supply, Transportation, and Procurement. The two offices disagree on who is responsible for taking and reconciling inventories of this property. Consequently, an adequate inventory of communications equipment has not been taken for a number of years.

We found that the Bureau of Diplomatic Security compared property in three of the warehouses where it stores property with a list of warehouse stock by location. Although it plans to adjust property records so they will be accurate, it does not plan to determine the cause of or reconcile any discrepancies found. Because the Bureau did not make a count of warehouse property without reference to property listings, keep an inventory file, and reconcile the inventory to property records; the inventory did not conform to State's regulations.

The Office of Supply, Transportation, and Procurement, in addition to worldwide inventory responsibility for motor vehicles, is responsible for procuring, storing and distributing furniture and equipment for domestic offices. The office inventoried new and rehabilitated office furniture and equipment it stores in one of its four warehouses, but did not inventory excess property stored in another of its warehouses.

INCOMPLETE AND INACCURATE PROPERTY RECORDS

We reviewed property records at six warehouses and found that all had some incomplete or inaccurate records. At four of the six, every record we tested was either incomplete or inaccurate.

At three warehouses, we selected 13 groups of security equipment items and checked them with the automated property records. The records did not list 6 of the 13 groups of items we selected, including 23 dual-screen TV monitors and 69 vehicle armoring kits. For the other seven groups of items, all records showed the wrong location of the property and/or incorrect quantities. For example, the property records listed 453 single-screen TV monitors at specific locations in one warehouse. We found no monitors at these locations, but found 184 monitors in another unrecorded location. Also, the property records listed 72 TV cameras in one warehouse. We found only 61 TV cameras, including 24 at an unrecorded location. Warehouse officials said that they could not document the whereabouts of missing equipment and that property record discrepancies occurred because they were several months behind in posting property transactions.

In one warehouse, we selected 10 property record cards for groups of communications equipment items stored in the warehouse and attempted to physically locate the recorded property. All 10 cards were inaccurate. For example, the four minicomputers listed on one card and the two dish antennas listed on another were not at the warehouse. (Warehouse officials were unable to document the location of this equipment.) Warehouse officials told us that they do not have a complete and accurate set of records for communications equipment in this warehouse and do not consider their records to be official. They said, however, that they plan to take an inventory of the equipment and to establish accurate records.

INADEQUATE PHYSICAL SECURITY

During two visits, 6 days apart, we found inadequate physical security over property stored in the main warehouses of the Bureau of Diplomatic Security and the Office of Supply, Transportation, and Procurement. The two warehouses are separated by a parking lot which the State Department uses to store motor vehicles. Chain link fences enclose the parking lot and most of the two buildings; however, on one end, the buildings extend beyond the fences and have two garage door openings.

During our first visit to the Diplomatic Security warehouse, a large room at the back of the building was unattended. A garage door in this room, which leads to the parking lot, was open, as were other garage doors leading to the outside. Inside the large room, was an open vault which contained three electronic eavesdropper detection (debugging) sets. The room also contained eight crates of cameras, security equipment staged for shipment to foreign posts, and tear gas dispensers. Although cameras monitor the room and the building's exterior, the monitors were not being watched.

During our second visit to the warehouse, we observed the same conditions, except the vault door was closed and the crates of cameras had been removed. However, five crates of small arms munitions had been moved into the unattended room. During this visit we were able to walk unchallenged, although totally unknown to warehouse officials, through an open garage door outside the fence, down the main aisle of the Supply, Transportation, and Procurement warehouse, out another open garage door into the fenced parking lot, and across the lot to the open Diplomatic Security warehouse garage door. We notified State Department officials about the problem and they said they would correct it.

CENTRALIZED GUIDANCE AND
MANAGEMENT LACKING

At State Department warehouses, inventories are sometimes not taken and reconciled or adequate property records kept because warehouse officials disagree as to whose responsibility it is to do so. Also, some warehouse officials--such as those in the Bureau of Diplomatic Security--have not developed written procedures for warehouse operations such as receiving and inspecting, and taking inventory. In addition, each warehousing organization has a different contractor developing or enhancing its separate automated record keeping and logistics system, even though the basic warehousing and logistics functions performed by the organizations are similar. The State Department had performed no evaluation to determine if one system serving the needs of all might be more appropriate and less costly and had not attempted to implement a 1984 IG suggestion for a centralized automated property records system.

CONCLUSIONS

The Department's seven domestic warehouses' we visited have inadequate internal controls. At some warehouses, property records were so incomplete and inaccurate and physical security so lax that sensitive property might have been taken or tampered with without the State Department's detection. Control weaknesses were also noted in a December 1984 IG report.

State Department regulations for domestic personal property management do not specifically address domestic warehouses and no one monitors and enforces compliance with the requirement to take and reconcile inventories and keep adequate property records. Warehouse organizations disagree over who is responsible for controlling some property.

Because of the potential significance of the physical security problems and the control problems identified by State's IG in December 1984, we believe domestic warehouse control problems

should have been specifically identified in the State Department's 1985 or 1986 FIA report to the President and the Congress. Further, State needs to develop an action plan to correct these deficiencies, and should immediately ensure that physical security problems are corrected.

RECOMMENDATIONS

Our report to the Secretary of State recommends that the Secretary

- direct the Under Secretary for Management to immediately correct the physical security problems found at domestic warehouses;
- direct the Central Property Management Office to develop, for inclusion in the Foreign Affairs Manual, specific guidance and regulations sufficient to ensure adequate internal controls over domestic warehouse operations and to monitor compliance with the regulations; and
- identify the management control weaknesses found at domestic warehouses in the next annual FIA report to the President and the Congress, including actions taken and planned for correcting the weaknesses. The actions and plans should address the specific responsibilities of each warehouse organization and establish responsibility and authority for ensuring the adequacy of internal controls in operation at State's domestic warehouses.

AGENCY COMMENTS

State agreed with our findings and recommendations and discussed with us actions it has already taken and its plans for implementing our recommendations. Actions already taken include performing a security survey and preparing a report on security at warehouses where we found inadequate physical security. State also discussed other actions which could be accomplished immediately to improve security, such as securing warehouse doors, improving vehicle storage lot control, and briefing employees on security. Planned

actions to implement our recommendations include preparing an action plan and expanding domestic personal property management regulations to include domestic warehouse operations.

- - - - -

In closing, Mr. Chairman, we would like to reemphasize that our review of internal controls over State's personal property shows that, as has been the case in the past, regulations are not being adequately followed and enforced. It shows also that State's efforts to improve controls have not yet worked, and that controls over property in domestic warehouses are inadequate.

Mr. Chairman, this concludes my prepared remarks. I will be happy to respond to any questions you may have at this time.